

**EXECUTIVE SECRETARIAT**  
Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
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2	DDCI				
3	D/ICS				
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9	GC				
10	IG				
11	Compt				
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14	D/OPP				
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17	AO/DCI				
18	NIO/ECON		✓		
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SUSPENSE

Date

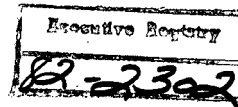
Remarks:

Executive Secretary

2/4/82  
Date

975-82

THE WHITE HOUSE  
WASHINGTON



## CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 2/3/82 NUMBER: 050149CA DUE BY: -----

SUBJECT: CABINET COUNCIL ON ECONOMIC AFFAIRS -- Minutes

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Baker	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	Anderson	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	Gray	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	Beal	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>	Allen Lenz	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	Larry Kudlow	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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Transportation	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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Counsellor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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UN	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCCT/Kass	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/McClaghry	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input checked="" type="checkbox"/>

REMARKS: Attached are the minutes of the January 28 and 29 meetings of the Cabinet Council on Economic Affairs.

RETURN TO: Craig L. Fuller  
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456-2823

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Assistant Director  
Office of Cabinet Affairs  
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MINUTES  
CABINET COUNCIL ON ECONOMIC AFFAIRS

January 29, 1982  
8:45 a.m.  
Roosevelt Room

Attendees: The Vice President, Messrs. Regan, Baldrige, Donovan, Lewis, Weidenbaum, Anderson, Porter, Davis, Lyng, Sprinkel, Hormats, Leland, Ikle, Kudlow, Savas, Gray, Bailey, Baroody, Cicconi, Dederick, Freieron, Garrett, Hopkins, Hudson, Michalopoulos, Bledsoe, Cribb, Hemel, Ms. Dyke, and Ms. Williams.

1. Multilateral Development Bank Assessment

The Council reviewed a paper assessing U.S. participation in the multilateral development banks in the 1980s. The paper included an executive summary of a lengthy, comprehensive study undertaken by the Department of the Treasury in coordination with the Department of State, the Office of Management and Budget, and the International Development Cooperation Agency.

Mr. Sprinkel's presentation focused on the role of the multilateral development banks (MDBs) in increasing the flow of capital to less developed countries (LDCs) noting that MDB funds represented only 6-7 percent of total flows to the developing world, that the rates of return on projects were relatively high, and that on the whole their operation was cost effective. His presentation also explored the role of the MDBs in correcting LDC market imperfections, U.S. objectives with regard to MDB performance, the record of the MDBs in coordinating policies with the International Monetary Fund, and the merits of funding MDBs through callable capital allocations versus replenishments.

The Council's discussion centered on the role of federal budgetary constraints in determining U.S. contributions to MDBs in the coming years, the consistency of the study's recommendations with the President's pledges at Cancun, the role of the MDBs in stimulating LDC demand for U.S. products, potential congressional opposition toward new U.S. contributions to the MDBs, and the most appropriate language to use in the budget section of the report.

Decisions

The Council approved the eight specific policy recommendations in the study relating to market forces, promoting policy reform, sector allocation, graduation, maturation, paid-in capital, U.S. participation in real terms in the soft loan windows,

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and U.S. budget priorities.

The Council suggested several clarifications in the language of the budget section of the report, so that it accords more closely with the policy recommendations.

2. Polish Debt

The Council reviewed a paper, prepared by the Department of State, on the Polish debt situation.

Mr. Leland discussed the implications of a default on Polish debt to western banks and governments, the reasons for the delay of the 1982 Polish debt rescheduling, the volume of new western trade credits to the Eastern Bloc (virtually all official credits to Poland have stopped), and the volume of receipts for Polish debts due in 1981.

Mr. Hormats reported on recent discussions in Europe between U.S. officials and officials from other creditor countries. His report centered on the position of the major creditor countries with regard to new credits, the progress made with our allies concerning sanctions on trade with the Soviet Union, and recent developments in the internal situation in Poland.

The Council's discussion of the Polish debt situation focused on credits to Poland previously guaranteed by the Commodity Credit Corporation and the possible consequences of a Polish debt default.

Decision

The Council agreed that it would work with the NSC in producing an options paper on alternatives with respect to the Polish debt situation and a Polish default.

3. Hungarian and Polish Applications for Membership in the International Monetary Fund

The Council briefly reviewed a paper, prepared by the Department of the Treasury, on the Hungarian and Polish applications for membership in the International Monetary Fund.

Mr. Leland's presentation focused on the status of the Polish

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and Hungarian applications, the privileges associated with IMF membership, and the current rescheduling of Romanian debt.

The discussion focused on the non-political orientation of the IMF historically, the remaining technical requirements in completing their applications, and the schedule for processing the applications.

Decision

The Council supported the U.S. requesting that any IMF staff visits to Poland in the near future consist of technical personnel to gather additional information on the Polish economy and not include senior officials with responsibility for negotiating conditions for membership.

The Council deferred further discussion of the Hungarian IMF application until a later date.

RBP

MINUTES  
CABINET COUNCIL ON ECONOMIC AFFAIRS

January 28, 1982  
3:00 p.m.  
The Cabinet Room

Attendees: The President, Messrs. Regan, Smith, Baldrige, Donovan, Schweiker, Lewis, Edwards, Meese, Stockman, Brock, Anderson, Stoessel, Lyng, Porter, Darman, Fuller, Duberstein, Rollins, Cribb, Mehle, Cogan, and Ms. Norwood.

1. Review of the Economic Outlook

The Council reviewed a series of charts on developments in recent weeks in key economic indicators. Mr. Weidenbaum's presentation focused on the industrial production index, construction, retail sales, automobile sales, unemployment, and projected deficits as a percentage of the gross national product.

He also reported on growth in the money supply (M1), interest rates (prime and T-bills), the index of leading indicators, the consumer price index, and producer prices.

He noted that unemployment would likely continue rising during the coming months observing that it is a lagging indicator, and that it might well reach 9.5% or more before declining. A strong recovery in the second half of the year should result in a reduction in the unemployment rate to the 8.5% range a year from now.

He also noted that the markets will examine closely the President's February 8 budget and that one of the features in it that will please them is that all the proposed budget reductions are specified.

He noted that the upsurge in the money supply in recent weeks should stimulate the recovery in the near term and that he expected the recent rise in interest rates to reverse. While the index of leading indicators suggests that the turning point for the economy is near at hand, Mr. Weidenbaum warned that month to month or quarter by quarter forecasts are invariably imprecise and that administration spokesmen should emphasize that we expect a much improved economy a year from now with unemployment lower, real GNP higher, and inflation continuing to decline.

The discussion focused on estimates regarding the supply of savings during the coming year, consumer spending pat-

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terms during periods when interest rates are declining, and the potential for more interest rate increases in the coming weeks.

Decision

The Council approved establishing a small working group to develop estimates of new savings flows in the 1982-87 period.

2. Financial Institution Reform

Secretary Regan then reviewed the current status of financial institution reform legislation. He noted that the administration has endorsed legislative proposals that provide for: (1) expanded lending and investment powers for thrift institutions; (2) interstate and interindustry mergers of large and failing thrift institutions and commercial banks; (3) preemption of state due-on-sale clause prohibitions for Federally chartered depository institutions as well as for lenders (other than state chartered depository institutions) approved by the Secretary of Housing and Urban Development for participation in any mortgage insurance program under the National Housing Act; and (4) commercial bank underwriting of municipal revenue bonds and mutual funds provided these activities are conducted through subsidiaries of a bank holding company.

He noted that this legislation is an important part of the administration's efforts to deregulate the financial services industry and is of particular importance to the long-term well being of the thrift industry.

The discussion focused on the impact of the preemption of state due-on-sale prohibitions on real estate transactions and on buyers and sellers, on the freedom of individuals to enter freely into contracts, and on the prospects for the legislation in 1982.

3. Unemployment

The Council reviewed a paper on unemployment and the unemployment compensation system, prepared by the Department of Labor. Secretary Donovan's presentation focused on recent trends in unemployment, the characteristics of those currently unemployed, and the possible policy implications for the unemployment compensation system.

He noted that since last August the unemployment rate has increased by 0.3 percentage points or more in each month reaching 8.9% of the labor force in December. He also pointed out that during the three previous recessions over

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the last decade each successive recession had begun from a higher unemployment plateau.

The current unemployment includes wide disparities among states reinforcing the value in using state rather than national unemployment rates to trigger the extended unemployment compensation benefits program.

He reported that over 80 percent of the increase in unemployment between July and December was the result of job loss rather than quits or unemployment among new entrants and reentrants to the labor force. He also noted that almost half of the currently unemployed are under the age of 25 and that 1 out of 5 are teenagers.

He also reviewed the income levels and the family situation of the unemployed noting that 41 percent of those unemployed in 1980 had family incomes over \$20,000. Family income of individuals who are unemployed for 27 weeks or more averaged almost \$16,000.

Secretary Donovan also discussed the recent reductions in funding and positions in the Employment Service.

The Council's discussion focused on the success of the Jobs Corps program and the cost per placement, the types of workers served by state employment offices, the eligibility rules relating to unemployment compensation and the changes under the current administration, recent trends in applications for unemployment insurance, the number of individuals whose unemployment compensation benefits are terminating, and what happens to them after their benefits end.

The discussion also included the potential for accelerating spending on already approved federal construction projects, the likely calls for massive spending programs, and possible congressional activity to extend unemployment benefits.

Decision

The Council approved establishing a working group on unemployment and the unemployment compensation system to examine possible alternatives to the existing methods of dealing with unemployment and to examine possible modifications in the unemployment compensation system.

RBP